

## Steady operational performance...

NMDC reported an operationally steady set of Q3FY21 numbers. For the quarter, NMDC's topline came in line with our estimates while EBITDA & PAT came in higher than our estimates. For Q3FY21, NMDC reported revenue of operations at ₹ 4355 crore (up 45% YoY, 95% QoQ), broadly in line with our estimate of ₹ 4540 crore. Iron ore sales volume was at 9.3 MT (up 10% YoY and 41% QoQ) (our estimate: 9.4 MT). EBITDA came in at ₹ 2767 crore (up 74% YoY, 169% QoQ) (our estimate: ₹ 2546 crore). EBITDA/tonne came in at ₹ 2982/tonne, higher than our estimate of ₹ 2700/tonne (₹ 1892/tonne in Q3FY20 and ₹ 1560/tonne in Q2FY21). Ensuing PAT for the quarter was at ₹ 2109 crore, higher than our estimate of ₹ 1960 crore.

## Model sales volume of 38 MT for FY22E, 40 MT for FY23E...

For Q3FY21, NMDC reported production volume of 9.6 MT (up 12% YoY, 70% QoQ) while sales volume for Q3FY21 was at 9.3 MT (up 10% YoY, 41% QoQ). For 9MFY21, NMDC reported production volume of 21.8 MT (down 2% YoY) while sales volume for 9MFY21 was at 22.1 MT (down 7% YoY). After a muted Q1FY21 due to Covid-19 related concerns, NMDC posted a smart volume recovery in the last couple of quarters. Going forward, the company is aiming to clock sales volume of 35 MT for FY21E and 40 MT for FY22E. We model sales volume of 33 MT for FY21E, 38 MT for FY22E and 40 MT for FY23E.

## Announces price reduction in February 2021...

Average blended realisation for Q3FY21 was at ₹ 4644/tonne (up 31% YoY, 40% QoQ) wherein domestic realisation was at ₹ 4402/tonne (up 35% YoY, 41% QoQ). During May 2020-January 2021, primarily on the back of healthy trend witnessed in global iron ore prices, NMDC took notable prices hikes. This led EBITDA/tonne to rise 91% sequentially from ₹ 1560/tonne in Q2FY21 to ₹ 2982/tonne in Q2FY21. However, recently NMDC announced a price cut for both lump ore and fines with effect from February 7, 2021. The company has cut prices of both lump ore and fines by ₹ 600/tonne each. The revised price of iron ore lump was at ₹ 5100/tonne (earlier ₹ 5700/tonne) while the revised price of fines was at ₹ 4210/tonne (earlier ₹ 4810/tonne).

## Valuation & Outlook

Over the next couple of years, uptick in volumes augurs well for NMDC. Going forward, in our assumptions, we factor in an additional charge of 22.5% with respect to allocation premium for all mines from FY22 onwards. This is except for the Kumaraswamy mines where we have factored the allocation premium from October 2022 when the environmental clearance of the mine is renewed. We introduce FY23E estimates and roll over our valuations to FY23. We value the stock on an SoTP basis and arrive at a target price of ₹125 (earlier target price of ₹ 100). We maintain our **HOLD** recommendation on the stock.

### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	11,615	12,153	11,699	13,514	16,052	17,543
EBITDA	5,809	6,930	6,010	6,949	5,312	5,964
EBITDA Margin (%)	50.0	57.0	51.4	51.4	33.1	34.0
Adj PAT	3,806	4,643	3,611	5,243	3,650	4,205
EPS (₹)	12.0	15.2	11.8	17.1	11.9	13.7
EV/EBITDA (x)	5.3	4.5	5.6	4.7	5.6	5.0
RoCE (%)	22.3	25.3	20.3	21.4	13.2	14.0
RoE (%)	15.6	17.9	13.1	16.7	10.9	11.9



### Particulars

Particular	Amount
Market Capitalization	₹ 34630 crore
Total Debt (FY20)	₹ 565 crore
Cash and Investments (FY20)	₹ 4608 crore
EV	₹ 32803 crore
52 week H/L	131 / 62
Equity capital	₹ 306.2 crore
Face value	₹ 1

### Key risks to Call

- Higher than expected increase in iron ore sales volume
- Lower than expected sales volume and any steep correction in iron ore prices

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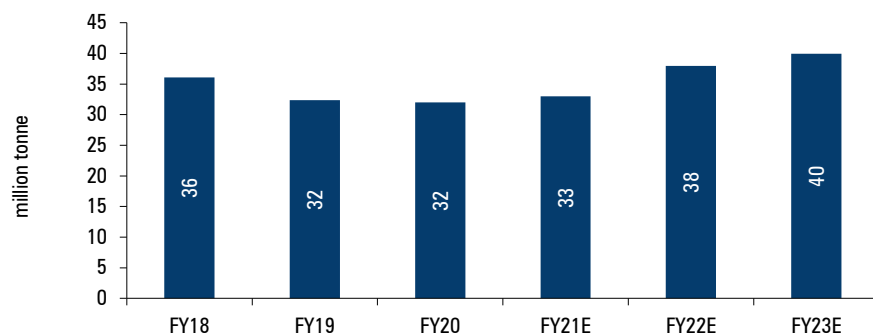
**Exhibit 1: Variance analysis**

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
<b>Total Operating Income</b>	4,355	4,540	3,006	45%	2,230	95%	Topline came broadly in line with our estimates
Other Income	106	129	130	-19%	89	19%	
Total Operating Expense	1,588	1,994	1,416	12%	1,201	32%	
<b>EBITDA</b>	<b>2,767</b>	<b>2,546</b>	<b>1,590</b>	<b>74%</b>	<b>1,029</b>	<b>169%</b>	EBITDA came in higher than our estimates
EBITDA Margin (%)	63.5	56.1	52.9	1064 bps	46.1	1739 bps	EBITDA margin came in higher than our estimates
Depreciation	61	55	65	-6%	54	13%	
Interest	2	2	10	-83%	2	-5%	
Exceptional Items	0	0	0		0		
PBT	<b>2,810</b>	<b>2,618</b>	<b>1,646</b>	<b>71%</b>	<b>1,062</b>	<b>165%</b>	
Tax Outgo	702	658	271		289		
<b>Reported PAT</b>	<b>2,108</b>	<b>1,960</b>	<b>1,375</b>	<b>53%</b>	<b>773</b>	<b>173%</b>	PAT came in higher than our estimate
<b>Key Metrics</b>							
Iron ore sales volume (MT)	9.3	9.4	8.4	11%	6.6	41%	Sales volume came broadly in line with our estimates

Source: ICICI Direct Research, Company

## Financial Story in charts

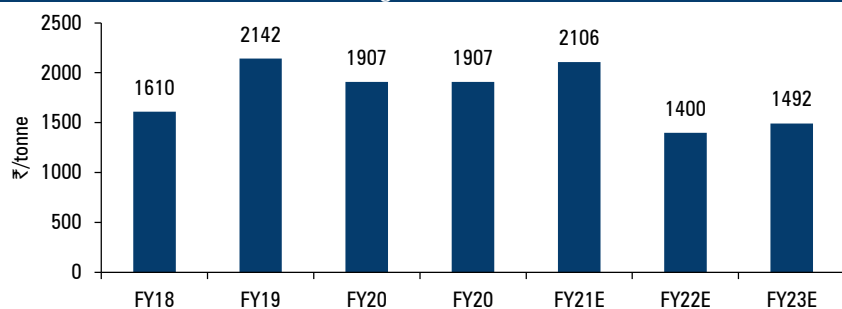
Exhibit 2: Trend in production



We assume sales volumes of 38 MT for FY22E and 40 MT for FY23E

Source: Company, ICICI Direct Research

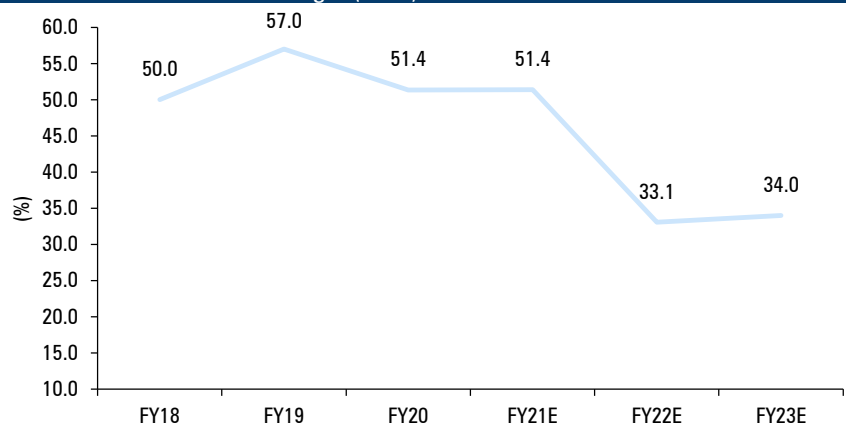
Exhibit 3: Trend in EBITDA/tonne margins level



We model EBITDA/tonne of ₹ 1400/tonne for FY22E and ₹ 1492/tonne for FY23E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in EBITDA margin (in %)



Over the next couple of years, we expect EBITDA margin to hover in ~33-34% range

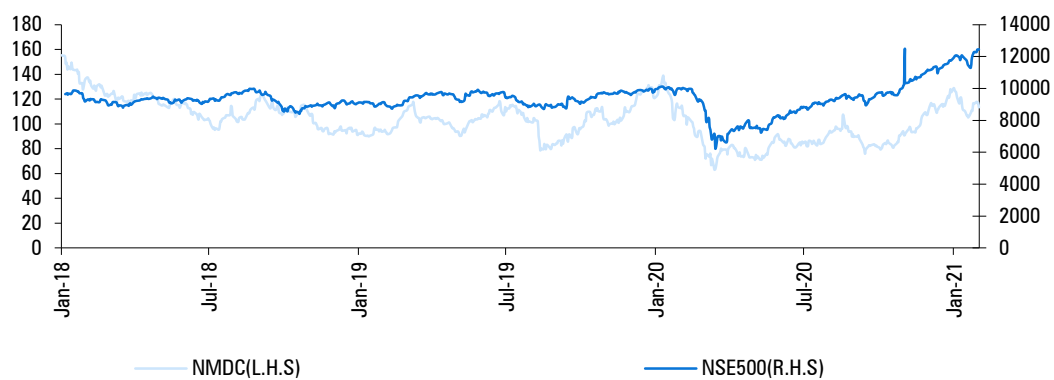
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	11,614.9	31.6	12.0	47.0	9.4	5.3	15.6	22.3
FY19	12,152.7	4.6	15.2	26.0	7.5	4.5	17.9	25.3
FY20	11,699.2	-3.7	11.8	-22.2	9.6	5.6	13.1	20.3
FY21E	13513.8	15.5	17.1	45.2	6.6	4.7	16.7	21.4
FY22E	16052.2	18.8	11.9	-30.4	9.5	5.6	10.9	13.2
FY23E	17542.9	9.3	13.7	15.2	8.2	5.0	11.9	14.0

Source: Company, ICICI Direct Research

Exhibit 6: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Sep-20	Dec-20	15-Jan-21
Promoter	69.65	69.65	68.29
Others	30.35	30.35	31.71
Total	100.00	100.00	100.00

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total Operating Income</b>	<b>11699</b>	<b>13514</b>	<b>16052</b>	<b>17543</b>
Growth (%)	-4	16	19	9
Total Operating Expenditure	5689	6565	10741	11579
<b>EBITDA</b>	<b>6010</b>	<b>6949</b>	<b>5312</b>	<b>5964</b>
Growth (%)	-13	16	-24	12
Depreciation	294	238	892	1012
Interest	10	14	9	9
Other Income	514	362	480	636
<b>PBT</b>	<b>6220</b>	<b>7059</b>	<b>4890</b>	<b>5579</b>
Exceptional Item	96	0	0	0
Total Tax	2513	1816	1240	1374
<b>PAT</b>	<b>3611</b>	<b>5243</b>	<b>3650</b>	<b>4205</b>
Growth (%)	-22	45	-30	15
<b>EPS (₹)</b>	<b>11.8</b>	<b>17.1</b>	<b>11.9</b>	<b>13.7</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	3,611	5,243	3,650	4,205
Add: Depreciation	294	238	892	1,012
(Inc)/dec in Current Assets	-1,712	-2,960	629	-1,038
Inc/(dec) in CL and Provisions	-179	757	1,316	425
Others	0	0	0	0
<b>CF from operating activities</b>	<b>2,015</b>	<b>3,279</b>	<b>6,487</b>	<b>4,603</b>
(Inc)/dec in Investments	-46	0	0	0
(Inc)/dec in Fixed Assets	-2,299	-1,860	-1,984	-2,259
Others	-57	0	0	0
<b>CF from investing activities</b>	<b>-2,403</b>	<b>-1,860</b>	<b>-1,984</b>	<b>-2,259</b>
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	201	-566	0	0
Dividend paid & dividend tax	-2,221	-2,149	-2,149	0
Inc/(dec) in Share Cap	193	752	500	-2,204
Others	0	50	50	50
<b>CF from financing activities</b>	<b>-1,827</b>	<b>-1,913</b>	<b>-1,599</b>	<b>-2,154</b>
Net Cash flow	-2,215	-493	2,904	190
Opening Cash	4,608	2,392	1,899	4,803
<b>Closing Cash</b>	<b>2,392</b>	<b>1,899</b>	<b>4,803</b>	<b>4,993</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	306	306	306	306
Reserve and Surplus	27,228	31,074	33,075	35,076
Total Shareholders funds	27,534	31,380	33,381	35,382
Total Debt	566	0	0	0
Deferred Tax Liability	0	0	0	0
Others	544	594	644	694
<b>Total Liabilities</b>	<b>28,643</b>	<b>31,974</b>	<b>34,025</b>	<b>36,076</b>
<b>Assets</b>				
Gross Block	5,953	6,353	24,619	26,619
Less: Acc Depreciation	2,907	3,145	4,037	4,290
Net Block	3,046	3,208	20,582	22,329
Capital WIP	15,472	16,932	650	150
Total Fixed Assets	18,518	20,140	21,232	22,479
Investments	986	986	986	986
Inventory	724	926	1,099	1,202
Debtors	2,224	2,777	2,859	3,124
Loans and Advances	3,942	5,406	4,414	4,824
Other Current Assets	1,962	2,703	2,809	3,070
Cash	2,392	1,899	4,803	4,993
Total Current Assets	11,243	13,710	15,984	17,213
Current Liabilities	226	296	352	385
Provisions	2,275	2,962	4,222	4,614
Current Liabilities & Prov	2,501	3,258	4,574	4,999
Net Current Assets	8,743	10,451	11,410	12,214
Others Assets	397	397	397	397
<b>Application of Funds</b>	<b>28,643</b>	<b>31,974</b>	<b>34,025</b>	<b>36,076</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	11.8	17.1	11.9	13.7
Cash EPS	12.3	17.3	14.4	16.5
BV	89.9	102.5	109.0	115.6
DPS	5.3	6.0	6.0	6.0
Cash Per Share (Incl Invst)	11.0	9.4	18.9	19.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	51.4	51.4	33.1	34.0
PBT / Total Op. income	53.2	52.2	30.5	31.8
PAT Margin	30.9	38.8	22.7	24.0
Inventory days	23	25	25	25
Debtor days	69	75	65	65
Creditor days	7	8	8	8
<b>Return Ratios (%)</b>				
RoE	13.1	16.7	10.9	11.9
RoCE	20.3	21.4	13.2	14.0
RoIC	23.1	23.5	16.0	16.8
<b>Valuation Ratios (x)</b>				
P/E	9.6	6.6	9.5	8.2
EV / EBITDA	5.6	4.7	5.6	5.0
EV / Net Sales	2.9	2.4	1.9	1.7
Market Cap / Sales	3.1	2.6	2.2	2.0
Price to Book Value	1.3	1.1	1.0	0.0
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.5	4.2	3.5	3.4
Quick Ratio	4.2	3.9	3.3	3.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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